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June 13, 2006

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02202

RE: Bay State Gas Company, D.T.E. 06-42

Dear Ms. Cottrell:

Enclosed please find six (6) copies of the Initial Brief of Bay State Gas Company.

Very truly yours,

Robert L. Dewees, Jr.

(th)

RLD:tkv

Enclosures

cc: John J. Geary, Hearing Officer  
Andreas Thanos, Assistant Director, Gas Division  
Alexander Kofitse, Analyst  
Kenneth Dell Orto, Analyst  
Jamie M. Tosches, Assistant Attorney General

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

**D.T.E. 06-42**

**INITIAL BRIEF  
OF  
BAY STATE GAS COMPANY**

**REQUEST FOR APPROVAL OF  
A PRECEDENT AGREEMENT FOR  
FIRM NATURAL GAS STORAGE AND RELATED  
LONG TERM TRANSPORTATION AGREEMENTS**

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## **I. INTRODUCTION**

On April 28, 2006, Bay State Gas Company ("Bay State" or the "Company") filed a petition with the Department of Telecommunications and Energy ("Department") for approval of a Precedent Agreement for firm natural gas storage with Washington 10 Storage Corporation ("Washington 10") and long term firm transportation agreements with Vector Pipeline Limited Partnership and Vector Pipeline L.P. (together "Vector"). Bay State requested the Department's approval of these agreements by July 1, 2006 so that the appeal period on a Department order can expire before the agreements are scheduled to take effect on August 1, 2006. Petition, p. 7; Tr. 22-23.

The Department held public and evidentiary hearings at its offices on May 31, 2006. The Attorney General was granted intervenor status. The Company sponsored one witness in the proceeding, Francisco C. DaFonte, Director of Energy Supply Services for NiSource Corporate Services. Mr. DaFonte's direct testimony was admitted as Exhibit BSG-1. It contained a number of sub-exhibits identified as Exhibits FCD-1 through FCD-12. The Department submitted information requests to Bay State, and the responses were admitted as Exhibits DTE 1-1 through 1-20. The Attorney General submitted two sets of information requests to Bay State, and the responses were admitted into evidence as Exhibits AG 1-1 through 1-2 and AG 2-1 through 2-11. On April 28, 2006, Bay State submitted a Motion for Protective Treatment which was granted in part and denied in part by the Hearing Officer at the hearing held on May 31, 2006. Tr. 21.

## **II. DESCRIPTION OF THE LONG TERM STORAGE AGREEMENT AND LONG TERM FIRM TRANSPORTATION AGREEMENTS**

In this proceeding, Bay State requests approval of a long term storage agreement with Washington 10 and long term transportation agreements for firm service with Vector Pipeline, L.P. and Vector Pipeline Limited Partnership, which operate pipelines in the United States and Canada, respectively. Approval of these agreements by the Department will provide Bay State with access to less costly gas supplies at the Chicago trading hub. In addition, by increasing its storage capabilities, Bay State will have more flexibility to manage its customers' demands due to weather and will be able to further stabilize winter price volatility in a cost effective manner . Exh. BSG-1, p. 3.

On April 24, 2006, Bay State executed a Precedent Agreement with Washington 10 for firm storage. Included in that Agreement (and to be executed upon Department approval) are the proposed Gas Storage Service Agreement with Washington 10 and the following agreements with Vector: Firm Transportation Agreement No. FT1-BAY-0187; FT-1 Firm Transportation Agreement No. FT-BAY-0186 for U.S. transport; and FT-1 Firm Transportation Agreement No. FT-BAY-C0186 for Canadian transport. Petition, p. 4.

Under the Precedent Agreement, Washington 10 agrees to provide firm storage service with a Maximum Storage Quantity of 1,821,500 Dth, for a term of nine years and eight months, commencing on August 1, 2006 and terminating on March 31, 2016. The Precedent Agreement survives only until the Gas Storage Service Agreement is executed. Exh. BSG-1, Confidential Exh. FCD-3.

The proposed Gas Storage Service Agreement ("GSSA") provides that service is offered to Bay State consistent with Washington 10's terms and conditions approved by the Federal Energy Regulatory Commission ("FERC"). The GSSA is proposed to take effect on August 1, 2006 and, if approved, will terminate on March 31, 2016. Under the GSSA, the maximum storage quantity is 1,821,500 Dth. The maximum daily injection quantity for April through October is 10,000 Dth/day (firm), with 10,000 Dth/day (interruptible) for November through March. The maximum daily withdrawal quantity varies, depending on the amount in storage when withdrawals are contemplated. Id.; Petition, p. 5.

Under the Firm Transportation Agreement with Vector Pipeline, L.P. No. FT1-BAY-0187, Bay State has the right to transport up to 14,645 Dth/day of gas with a primary receipt point at the Alliance Pipeline interconnect and a primary delivery point at the Washington 10 interconnect. The transportation service is expected to commence on April 1, 2007, and will continue for a term of ten (10) years, until March 31, 2016. Exh. BSG-1, Confidential Exh. FCD-4; Petition, p. 5.

Under the Firm Transportation Agreement with Vector Pipeline, L.P. No. FT1-BAY-0186, Bay State has the right to transport up to 26,645 Dth/day of gas with a primary receipt point at the Washington 10 interconnect and a primary delivery point at the St. Clair (U.S.) interconnect. The transportation service is expected to commence on April 1, 2007, and will continue for a term of ten (10) years, until March 31, 2016. Exh. BSG-1, Confidential Exh. FCD-4; Petition, p. 6.

Under the Firm Transportation Agreement with Vector Pipeline Limited Partnership No. FT1-BAY-0186, Bay State has the right to transport up to 28,112 gigajoules per day (GJ/day) or 26,645 Dth per day of gas with a primary receipt point at the St. Clair (Canada) interconnect and a primary delivery point at the Dawn, Ontario interconnect. The transportation service is expected to commence on April 1, 2007, and will continue for a term of ten (10) years, until March 31, 2016. Id.

The proposed Washington 10 and Vector agreements are considered replacement resources, and not incremental resources, for Bay State. This is because Bay State is proposing to replace purchases at Dawn, Ontario with purchases further upstream, either at Chicago or through storage, whichever option is the least cost. With the agreements proposed in this proceeding, Bay State is extending its existing gas contract paths further upstream to the more liquid trading point at Chicago, where the gas commodity can be purchased at a lower cost. In addition, the Company receives greater flexibility through the addition of storage capacity. The Vector and Washington 10 agreements will not affect Bay State's design day resources. The existing capacity path is a 20 year contract which does not expire until 2012, and, therefore, was in existence well before the resource decisions that were considered in Bay State's most recently approved long range forecast and supply plan. Exh. AG 2-1; Tr. 14; Exh. BSG-1, p. 7.

### **III. STANDARD OF REVIEW**

The Department applies a public interest standard for approval of replacement capacity resources under G.L. c. 164, sec. 94A. Commonwealth Gas Company,

D.P.U. 94-174-A at 27 (1996); Bay State Gas Co., D.T.E. 02-52 at 13 (2002). In order to demonstrate that the acquisition of resources is in the public interest, a local distribution company ("LDC") must show the acquisition to be consistent with its portfolio objectives and that the selected resource compares favorably with a range of alternative options reasonably available to the LDC at the time the acquisition is made.

When determining whether a resource is consistent with a company's portfolio objectives, the Department looks to recently approved portfolio objectives from the company's most recent resource plan or a recent review of supply contracts, relying as well upon the company's description of its objectives in seeking the proposed resource. Fitchburg Gas and Electric Light Company, D.T.E. 02-55 at 3.

In this case, Bay State's proposed agreements with Washington 10 and Vector satisfy these criteria and, accordingly, Bay State requests that they be approved.

**IV. THE PROPOSED AGREEMENTS WITH WASHINGTON 10 STORAGE AND VECTOR ARE IN THE PUBLIC INTEREST AND SHOULD BE APPROVED.**

**A. The capacity represented by the Washington 10 and Vector agreements is the best cost option compared to available alternatives.**

Bay State's definition of a best cost resource portfolio is one that is not simply the lowest cost supply, but one where there are favorable non-cost factors present, such as a reliable, flexible and viable supply. Tr. 16-17.

Bay State must have appropriate amounts of pipeline, storage and peaking resources available in order to match its supply with customer demand requirements. Due to the large amount of heat-sensitive load on its system, Bay State requires adequate

storage resources to be able to physically hedge winter gas prices by purchasing gas for winter deliveries at relatively low summer prices. During the summer of 2005, Bay State analyzed its storage resources and concluded that an increase in storage resources would be beneficial, because it would increase system flexibility and lower overall costs to customers. Exh. BSG-1, pp. 6-7. On October 31, 2005, in D.T.E. 05-48, the Department approved Bay State's long term transportation contracts with Union Gas and Transcanada Pipelines, which allowed Bay State to access lower gas costs at the Dawn, Ontario market hub. Exh. BSG-1, pp. 7-8. In approving the capacity proposed in that proceeding, the Department determined that Bay State's decision to go farther upstream to contract for the supply was in the public interest.

In this proceeding, Bay State is proposing to go even farther upstream to a more competitive price hub, Chicago, which should provide additional price benefits for Bay State customers. Exhibit FCD-1 provides a diagram of the Washington 10/Vector capacity path back to Chicago from Bay State city gates. Bay State's proposal to contract for supplies at Chicago is based on the price advantages of that hub, which is a lower cost trading point than is Dawn. Under the agreements proposed in this proceeding, Bay State can bypass Washington 10 storage, if that is most cost effective, and purchase gas at Chicago for delivery directly to Vector and then Union. This situation could occur, for example, during shoulder months when storage is not typically needed. Furthermore, the Vector transportation capacity could be used with other potential storage facilities located



in Michigan, thereby providing Bay State with additional flexibility to contract for future storage resources as opportunities become available. Exh. BSG-1, pp. 8-10.

In order to obtain market priced supply alternatives for comparison purposes, Bay State submitted a Request for Proposals to numerous marketers for winter service at Dawn and for summer service at Joliet, Illinois. Exh. BSG-1, p. 19; Tr. 17. Consistent with its approved resource planning process, Bay State performed a combination of cost and non-cost evaluations of the alternative resource options submitted in response to its RFP. Bay State utilized its SENDOUT<sup>®</sup> model, which the Department is familiar with, to evaluate the impact of each proposal on Bay State's total portfolio cost. Exh. BSG-1, pp. 20-21.

Bay State's SENDOUT<sup>®</sup> analysis was done over a 10-year period with storage dispatch beginning in November 1, 2006. The model was used to compare Bay State's total portfolio cost under the Washington 10 and Vector options as compared with purchasing gas directly at the Dawn, Ontario hub market. The model results showed Washington 10/Vector as the most cost effective resource which would contribute to a lower cost portfolio compared with purchasing supplies directly at Dawn. The resulting estimated portfolio savings over the 10-year period resulting from the Washington 10/Vector proposal are substantial. Exh. BSG-1, Confidential, p. 21.

Bay State's non-cost analysis demonstrated that the Washington 10/Vector proposal scored better than the Dawn alternative. Therefore, on the basis of both the cost

and non-cost analysis, the Washington 10/Vector alternative is clearly the superior alternative available to Bay State at the present time. Exh. BSG-1, pp. 22-24.

**B. The acquisition of the Washington 10/Vector resources is consistent with Bay State's portfolio objectives.**

Bay State followed its resource portfolio planning process in selecting the Washington 10/Vector proposal. As mentioned above, Bay State applied its Department approved resource planning process to select among the available resource alternatives, which included a thorough analysis of potential capacity and supply alternatives through solicitation of proposals by an RFP process and then analyzing the proposals with Bay State's SENDOUT<sup>®</sup> model. The results of planning process indicated that the proposed Washington 10/Vector agreements add more flexibility to Bay State's portfolio and will lower overall gas costs.

The Department has reviewed Bay State's planning objectives and methods in the context of periodic forecast and supply plan proceedings, as well as in conjunction with previous requests for approval of specific resource decisions. See, e.g. Bay State Gas Co., D.T.E. 02-75 (2004); Bay State Gas Co., D.T.E. 03-32 (2003); Bay State Gas Co., D.T.E. 03-37 (2003); Bay State Gas Co., D.T.E. 02-52 (2002); Bay State Gas Co., D.T.E. 00-52 (2000). Bay State has consistently followed the approved approach of creating a "best cost" portfolio. See, e.g., Bay State Gas Co., D.P.U. 93-129 (1996) at 49. Bay State applied those methods to the proposed resource selection that is the subject of this proceeding. Since the Department has previously determined that Bay State's portfolio objectives and its resource acquisition process were appropriate and reasonable, and those

techniques were followed here, the Department should find that the Washington 10/Vector proposal is in the public interest.

## **V. CONCLUSION**

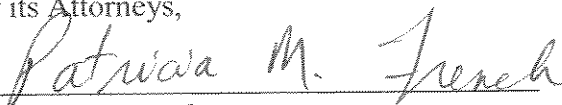
The acquisition of the Washington 10/Vector capacity satisfies the Department's public interest standard for approval of replacement capacity resources, in that the acquisition of the resources (1) is consistent with the Company's portfolio objectives and (2) compares favorably to the range of alternative options reasonably available to the Company at the time of the acquisition. The evidence in this proceeding indicates that the Washington 10/Vector alternative satisfies each of these requirements.

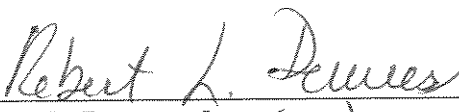
For the reasons set forth in this Initial Brief, Bay State Gas Company requests that the Department approve, pursuant to G.L. c. 164, sec. 94A, the proposed replacement storage and transportation agreements with Washington 10 Storage and Vector Pipeline.

Respectfully submitted,

BAY STATE GAS COMPANY

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DATED: June 13, 2006

CERTIFICATE OF SERVICE

I, Robert Dewees, Jr., hereby certify this 13<sup>th</sup> day of June, 2006, that a true and correct copy of the foregoing Initial Brief of Bay State Gas Company was served on all parties of record, by hand delivery or First Class mail, postage prepaid.

June 13, 2006

Robert L. Dewees  
Robert L. Dewees, Jr. (yhm)